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ABSTRACT

Details and policy implications of proposals concerning tuition tax credits, tax allowances, and vouchers for private colleges and universities are considered. Several formulas for tuition tax credits are tested to determine whether a tuition tax credit can be both cost-sensitive and need-sensitive. Advantages and disadvantages of tax saving plans for educational purposes are explored, and it is suggested that a careful examination of educational voucher plans demands a total reexamination of the future financing of American higher education. Unlike federal student assistance, the large majority of the benefits of tuition tax credits are distributed to middle and upper income taxpayers. Need-sensitivity can be affected by making the tax credit refundable, by imposing an income eligibility cap, and by choosing a pro-rata offset formula of tax-free awards. The use of an income-sensitive percentage of costs does not affect need-sensitivity for students attending independent colleges. Most tuition tax credit proposals are limited to full- and half-time students. It can be expected that tuition tax credits will increase the regulatory burden on institutions. The principle motivation of tax savings plans is to lure people into greater levels of savings by offering taxpayers the opportunity to sequester funds for home purchase or educational expenses and receive a dollar-for-dollar tax reduction. It is suggested that the economic outlook is the dominant variable in considering the political context in which tuition tax credits, tax savings plans, and the level of appropriations for federal student assistance must be considered. (SW)

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A GUIDE TO TAX POLICY AND HIGHER EDUCATION

An Analysis of Tuition Tax Credits, Tax Savings Plans, Vouchers and Independent Higher Education

by

Christine Topping Milliken

TAX POLICY PAPERS: 1981
Issue I
January 1981

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FOREWORD

This paper results from the action taken by the NAICU Board of Directors at its December 1980 meeting in deciding to throw open for membership discussion and policy determination at the Annual Meeting the issues of tuition tax credits, tax allowances and vouchers. The purpose of this paper is to explore the details and policy implications of these proposals.

For the last three years, the NAICU policy positions have stated that, within the context of any tuition tax credit initiative, we would support only a program sensitive to the varying levels of student tuition expenses and student need. However, as this paper points out, it is only possible to affect need- and cost-sensitivity to a limited degree; most, if not all, politically realistic proposals cannot be stretched to fully carry out NAICU's policy goals. Tax savings plans, while intriguing, are still too new an idea to fully explore their ramifications. Their success is dependent on the unknown variable of how much additional funds will a taxpayer sequester due to the tax incentive. Finally, a careful examination of educational voucher plans demands a total reexamination of the future financing of American higher education.

I wish to express my appreciation to the entire NAICU/NIICU staff for their cooperation on this project: to Joan Griffin for her assistance in preparing the vouchers section; to Frank Balz for preparation of the data tables; to John Phillips, Peter Gossens, and Virginia Hodgkinson for their valuable comments and suggestions; and lastly, to Beverly Nyhous for her careful typing and preparation of this manuscript.

Having made these acknowledgments, the full responsibility for the conclusions of this report rests with the author.

Christine Topping Milliken

EXECUTIVE SUMMARY

1. The most recent Congressional discussion of tuition tax credits occured in 1977-78. Expansion of student aid eligibility was offered as an alternative to postsecondary tuition tax credits. The Congressional discussion of tuition tax credits broke down over a disagreement between the Senate and the House over the inclusion of elementary and secondary tuition tax credits (see pages 1 to 5).

2. Cost estimates for tuition tax credits range from $1 to 4 billion. Inclusion of private elementary and secondary students in a tuition tax credit program generally adds 30-40% in costs (see page 6).

3. NAICU policy position statements to date have been silent on the issue of the inclusion of elementary and secondary tuition expenses. Private elementary and secondary students account for over one-fourth of independent college enrollment. No trend data exists to determine whether this is an increasing or decreasing percentage of enrollment (see pages 6 to 9).

4. Tinkering with the percentage of tuition covered (the lower, the percentage, the higher up the tuition and fee ladder the credit can reach) and the maximum size of the credit (the higher, the better) can achieve a degree of tuition cost-sensitivity in the size of the benefit distributed to students enrolled at independent and public institutions. For example, 25% of tuition and fees up to $500 provides a student attending an average cost public institution a $175 credit, and the student attending an average cost independent institution a $500 credit. However, the most favorable formulae tested are at best neutral vis-a-vis the price differential between public and independent institutions. (The example cited expands the tuition gap from 4.7 to 1, to 5.3 to 1.) (See pages 9 to 12).

5. Unlike federal student assistance, the large majority of the benefits of tuition tax credits are distributed to middle and upper income taxpayers. Need-sensitivity can be affected by making the tax credit refundable, by imposing an income eligibility cap, and by choosing a pro-rata offset formula of tax-free awards. The use of an income-sensitive percentage of costs does not affect need-sensitivity for students attending independent colleges (see pages 12 to 20).

6. Most tuition tax credit proposals are limited to full and half-time students. Graduate student enrollment, which today accounts for nearly one-fifth of total enrollment in the independent sector, is of considerable importance to independent colleges (see page 20).

7. It can be expected that tuition tax credits will increase the regulatory burden on our institutions, although care has been taken to limit the definitional conflicts that might arise between the IRS and the

Department of Education. Should tax-free awards be offset, detailed IRS guidelines can be expected (see pages 20 to 21).

8. Tax savings plans which focus their benefits substantially on middle and higher income taxpayers are quite new. The principal motivation is to lure people into greater levels of savings by offering taxpayers the opportunity to sequester funds for home purchase or educational expenses and receive a dollar-for-dollar tax deduction. The main unknown variable with these proposals is just how much saving will actually be encouraged. In theory, if savings are increased, this type of proposal could provide substantially greater long term taxpayer relief than offered under a program of tuition tax credits. Tax savings plans serve a different, larger target population than tuition tax credits. From a long term perspective, tax savings plans could be viewed as either an alternative or a complement to tuition tax credits (see pages 23 to 29).

9. A program of vouchers would require major restructuring of federal support for higher education. While a voucher may be pursued through the tax system, there are inherent deficiencies with this approach. Pursuing vouchers through refinements of the student aid system would seem a better possibility, but such improvements would depend on an improved economic outlook and the reauthorization of the Higher Education Act. If the concept of vouchers is to be pursued, greater study of the details is required (see pages 30 to 33).

10. In conclusion, the economic outlook is the dominant variable in considering the political context in which tuition tax credits, tax savings plans and the level of appropriations for federal student assistance must be considered. The political viability of tax savings plans cannot be measured until they develop a base of support. Tuition tax credits command a substantial base of Congressional support; however, they may get side-tracked by budgetary considerations. As a program, tuition tax credits of the size being advocated could not replace BEOG funds gained under MISAA or substantial cutbacks in the Guaranteed Student Loan Program. Tuition tax credits viewed as an add on could provide a modest tax benefit to families with incomes above $25,000 who are not eligible for MISAA. However, the benefit could not be sufficiently structured to reduce the tuition gap between public and independent higher education (see pages 34 to 41).

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INTRODUCTION

Recent History -- Tuition Tax Credits and NAICU Past Policy Positions

In the last 20 years, proposals to provide some tax relief for tuition expenses for middle income families have enjoyed growing support among members of Congress and the American public. During the 1950's two of the most common proposals were a tax deduction for tuition expenses or an additional personal exemption for each child in college. The latter was partially enacted.

In the mid-1960's, because an increasing number of families used the standard deduction, tuition tax credit proposals displaced the earlier deduction schemes. Between 1967-1977, the Senate passed six (6) tuition tax credit proposals, all limited to postsecondary education. Proposals to include tuition paid at elementary and secondary schools emerged first in the mid-1970's. Senate Finance Committee passage of an all inclusive (elementary through postsecondary) tuition tax credit did not occur until 1978. Until that year, the House of Representatives had never directly voted on the issue of federal educational tax credits.

In that year the tax writing committees, which had focused two previous tax bills on decreasing the tax burden of low income taxpayers and tax "reform", turned their attention to across the board tax "reduction". The Congressional discussion of a postsecondary tuition tax credit that year was further complicated by an alternative approach advanced by the Carter Administration to provide expanded eligibility under student aid programs to families whose income reached $25,000. A Roper organization public survey during this period reported that 54% of the individuals polled preferred some method other than postsecondary tax credits to provide relief. Twenty-three percent of the respondents preferred tuition tax credits.

Traditionally, the coalition supporting tuition tax credits has splintered over two issues: whether eligibility for tuition tax credits should be extended to parents of students enrolled at private elementary and secondary schools or confined to students attending institutions of postsecondary education; and second, the existence of competing legislative priorities.

Most of the support for tuition tax credits comes from groups who desire credits for private elementary and secondary school expenses. Yet Congressional interest has been concentrated on providing a postsecondary tuition tax credit. Given possible church-state constitutional problems which the provision of tax credits for elementary and secondary school tuition might generate, supporters of such aid have traditionally felt it was essential to link their institutions with postsecondary institutions, as a means of diluting the percentage of tax credit relief associated with religiously sponsored education. Moreover, politically, elementary and

secondary tuition tax credit supporters view the inclusion of a post-secondary tuition tax credit as enhancing the prospects of legislative enactment. The 1978 Roper Poll, cited above, found that 28% of those surveyed favored private elementary and secondary assistance, while 64% were opposed.

Given the nature of the legislative process, tuition tax credits, which will produce an estimated revenue loss of $1-4 billion, cannot be viewed in isolation. The context of any future debate over tuition tax credits is difficult to predict, but recent history may offer some guidance.

Legislative Recap: 1977-78

In 1977, at the end of the first session of the 95th Congress, the House Ways and Means Committee was presented with a Senate ultimatum. The House Committee had for years bottled up tuition tax credit legislation preventing full House consideration of the issue. However, in that year, the Senate attached a postsecondary tuition tax credit proposal providing a flat $250 credit to the emergency Social Security Financing bill. In conference, the Ways and Means Committee agreed to take action on the tuition tax credit issue in the Spring as a condition for deleting the Senate provision from the Social Security bill.

At the same time -- and in part as a reaction to the growing momentum for tuition tax credits -- Congressman Bill Ford (D-MI), Senator Claiborne Pell (D-RI), and other leaders of the Congressional education committees began to fashion proposals to expand the eligibility requirements of federal student assistance programs to include middle income college students. To the Carter Administration, some members of Congress and some NAICU members, expansion of student assistance eligibility and tuition tax credits were seen as alternative approaches. To others, they were viewed as complementary proposals.

The 1978 Annual Meeting offered the first opportunity for the NAICU membership to address the issue of tuition tax credits. The policy statement adopted stated that NAICU assigned "the highest priority" to the expansion of the student assistance programs. However the resolution went on to note that "if tuition tax credit proposals are seen as the only feasible plan for assistance to middle income families, this assembly calls for a program of tuition tax credits which reflects both the level of family income and the cost of higher education."

Tuition tax credit legislation emerged from both houses of Congress in August of that year. (The Ford proposal for expanding direct student assistance benefits was stalled, having lost access to the House floor on a procedural point.) After a difficult debate focused on the effects of tuition tax credit legislation on school desegregation, the Senate limited the tuition tax credit to postsecondary school tuition. The

Senate bill sponsored by Senators Daniel Patrick Moynihan (D-NY) and Bob Packwood (R-OR) provided for a tax credit equal to 50% of tuition and fees up to a maximum of $500. The Ways and Means Committee reported out a bill providing for only a postsecondary tax credit, but during House floor action the bill was expanded to include elementary and secondary students by a vote of 209-194. The final House- passed bill provided for a tax credit equal to 25% of tuition and fees up to a maximum credit of $250.

After several difficult sessions, the House conferees accepted the Senate position, striking elementary and secondary education from the first conference agreement.

Final Maneuverings and NAICU Strategy in 1978

Throughout the tuition tax credit debate, NAICU had focused its efforts on two aspects of the tuition tax credit formula. First, we attempted to make the tuition tax credit at least somewhat cost-sensitive by seeking the lowest percentage of tuition covered as was feasible. The lower the percentage, the higher the tuition which could be reflected in the tuition tax credit. Most observers agreed that the maximum size of the credit was likely to be set at a relatively low level due to budget constraints and a belief that the ceiling could be the portion of the formula lifted in later years. We concentrated our energies on the most permanent portion of a tuition tax credit formula -- the percentage of tuition to be covered.

NAICU was able to secure a Ways and Means Committee formula which set the percentage limitation at 25% of tuition and fees. After a substantial floor fight in which most of public higher education lobbied for the 50% feature, we held the 25% feature in the full House. The Senate bill set the percentage limitation at 50% of tuition and fees. The conferees compromised the percentage issue at 35% of tuition and fees.

Our second effort was to secure an offset for various student aid and scholarship programs to inject a degree of sensitivity to student financial need into the credit formula. Both the House and Senate versions eventually emerged with an offset provision which reduced the size of the taxpayers tuition tax credit by the amount of governmental assistance or private scholarships a student obtained. The issues of offset and percentage tuition tax credits are explained in greater detail in the next part of this paper.

The House of Representatives, on a close vote, refused to accept the conference report unless elementary and secondary school tuition was included. The conferees met again; the Congressional session was now nearly over. A new compromise was fashioned with substantial leadership from Congressman Dan Rostenkowski (D-IL), now Chairman of the Ways and Means Committee. Secondary school tuition was added, but subject to a smaller maximum credit than was postsecondary school tuition. The Senate refused to go along with the House approach and the bill died when

Congress adjourned later that week. It should be noted that the Ways and Means Committee, by insisting on a separate tuition tax credit bill rather than including it as an amendment to the major tax reduction package it prepared concurrently, was able to secure passage of the 1978 Tax Reduction bill before Congress adjourned.

The politics of tuition tax credits were demonstrably complex in 1978. Some members of Congress were opposed to any type of tuition credit for reasons running the gamut of philosophical position to cost concerns. Others were strongly opposed to, or in favor of, tuition tax credits for the lower grades but had less defined feelings about postsecondary tuition credits. Added to this diversity was a plethora of approaches to each major twist in the tuition tax credit debate. Some members who opposed tuition tax credits saw adding elementary and secondary tax credits as a way to sink the bill; some who opposed the concept saw advocacy of postsecondary-only tuition tax credits as the best compromise that could be won. Advocates of tuition tax credits split -- although to a lesser degree -- over whether the enactment of postsecondary tuition tax credits first was a step forward leading to eventual inclusion of elementary and secondary or a step which would condemn elementary and secondary tax credits to legislative oblivion. There were a few others who felt that expansion of student aid grant and loan benefits was the proper federal response for postsecondary education and tuition tax credits should be confined to elementary and secondary students.

The politics of the higher education associations were also complex. The only higher education association which endorsed tuition tax credits was the American Association of Community and Junior Colleges. Most of their students' tuition expenses could be met through a relatively low flat tuition tax credit. Most other associations were either in opposition to tuition tax credits or confined their interests to specific aspects of the tuition tax credit formula.

Recent History

At the 1979 and 1980 Annual Meetings, the NAICU membership adopted a statement on tuition tax credits similar to the 1978 statement. The NAICU public policy positions noted that the passage of MISAA and its accompanying appropriations afforded greater relief to middle income students than that which might have been provided by any of the major tuition tax credit proposals in the 95th Congress, and suggested that, should Congress consider tuition tax credits, need- and cost-sensitivity were still the focus of NAICU's concerns.

During 1979 and 1980, the U.S. economic picture worsened; Congress was undecided as to whether further tax reduction would improve or worsen the economic outlook. The House Ways and Means Committee chose not to push tax reduction. The Senate, during the Spring, passed a resolution urging the Finance Committee to provide a tax reduction bill that would focus on stimulating the economy. In the Senate Finance Committee, a

bill was drafted with an amazing degree of consensus. Citing the economic emergency, the key Senate supporters of tuition tax credits refrained from adding such a controversial issue to the tax package. The whole tax reduction package, however, expired with the close of the 96th Congress in December of 1980.

Presidential and Congressional election campaigns resurfaced tuition tax credits. The Republican Party's 1980 platform committed the party to supporting elementary through postsecondary tuition tax credits. President Reagan and Education Secretary Terrel H. Bell have expressed their personal support for tuition tax credits.

This paper explores the details and policy implications of these proposals. Part A addresses various tuition tax credit proposals, and tests several formulae to determine whether, in fact, a tuition tax credit can be both cost- and need-sensitive. Part B explores some of the advantages and disadvantages of tax savings plans for educational purposes. In Part C, the concept of voucher plans is discussed, including the reservation that serious discussion of such a system should entail major further study before we can address the policy implications of such plans.

Finally, all indicators point to the early development in the 97th Congress of a major tax reduction bill. The creation of such a bill may provide a convenient opportunity for the renewal of the tuition tax credit debate. Therefore, the last section of this paper is devoted to a detailed discussion of the emerging political setting.

A. The Details of Tuition Tax Credits

1. Costs

Congressional Budget Office cost estimates of the 1978 proposed programs of tuition tax credits run from $1 billion to over $4 billion. (See Table A on the following page for FY 1979 revenue cost estimates prepared in 1978 by the Congressional Budget Office for the most discussed tuition tax credit proposals of that year.) Lowering the percentage of tuition covered and/or the maximum size of the credit have the effect of decreasing cost. Offsetting tax-free awards also decreases costs. Adding a refundability feature -- so that taxpayers without positive tax liability would receive a tax refund -- generally adds 6 to 8% to the cost of tuition tax credit proposals.

As indicated by Table A, most tuition tax credit proposals which include elementary and secondary school tuition distribute the majority of funds to postsecondary education. When looked at from the perspective of the average size of the tax credit families will receive, postsecondary tuition taxpayers receive a credit nearly five times as large as those families paying tuition for lower grades under the sample proposals tested.

Some Congressional tax credit proposals have utilized phase-ins as a means of reducing the costs of tuition tax credits in the early years -- the years for which budget consciousness is the greatest. Such phase-ins have taken two forms, sometimes themselves combined: delaying the effective date on elementary and seondary tuition tax credits for one or two years after the start of a postsecondary program, or gradually increasing the maximum size of the credit over a period of three or four years.

2. Inclusion of Elementary and Secondary Students

As noted earlier, much of the controversy surrounding the tuition tax credit debate has focused on the inclusion of elementary and secondary school tuition expenses. To date, NAICU policy statements on tuition tax credits have not addressed this issue. This silence seems to reflect first a belief that elementary and secondary credits are not higher education's fight; and second, a desire to conserve energies to focus on those aspects of the debate that most affect our institutions.

NAICU/NIICU staff has been asked recently to look more closely at whether a relationship exists between students choosing to attend independent elementary and secondary schools and students choosing to attend independent colleges and universities. And second, whether that relationship should lead to an adjustment in the NAICU position.

According to the National Center for Educational Statistics, there were 2,505,305 freshmen enrolled in postsecondary education in the Fall

TABLE A

Estimated Effects of Various Non-Refundable
Tuition Tax Credit Proposals (FY 1979)
(in millions)

	$250*		$500**				$1000***			
	Benefits	AFC	Benefits	AFC	Benefits	AFC	Benefits	AFC	Benefits	AFC
	100%		25%		50%		25%		50%	
Elementary/Secondary	$1285 (40.6%)	$ 53 (16.3%)	$ 786 (42.6%)	$ 36 (18.9%)	$1553 (44.7%)	$ 79 (22.1%)	$ 786 (41.8%)	$ 35 (18.0%)	$1552 (42.3%)	$ 70 (18.6%)
Postsecondary	$1878 (59.4%)	$273 (83.7%)	$1061 (57.4%)	$154 (81.1%)	$1919 (55.3%)	$279 (77.9%)	$1096 (58.2%)	$159 (82.0%)	$2113 (57.7%)	$307 (81.4%)
TOTAL	$3163 (100.0%)	$326 (100.0%)	$1847 (100.0%)	$190 (100.0%)	$3472 (100.0%)	$358 (100.0%)	$1882 (100.0%)	$194 (100.0%)	$3665 (100.0%)	$377 (100.0%)

Source: Congressional Budget Office, February 20, 1978
Notes: Benefits reflect the estimated decrease in tax payments for the total eligible population.
AFC = average family credit
Scholarships have been netted out.

* No more than $250 per student per year
** Covers 25% or 50% of tuition and fees, books and equipment up to $500
*** Covers 25% or 50% of tuition and fees, books and equipment up to $1000

TABLE B

DISTRIBUTION OF COLLEGE ENROLLMENT BY TYPE OF HIGH SCHOOL ATTENDED, FALL 1979

Type of H.S. Attended	All Institutions		Universities		Four-Year		Two-Year	
	Public	Ind.	Public	Ind.	Public	Ind.	Public	Ind.
Public H.S.	89.3%	73.8%	85.5%	67.5%	88.2%	74.0%	90.6%	84.6%
Private H.S.	10.7%	26.2%	14.5%	32.5%	11.8%	26.0%	9.4%	15.4%

Add Vertically to 100%

TABLE C

COLLEGE CHOICE BY TYPE OF HIGH SCHOOL ATTENDED, FALL 1979

Type of H.S. Attended	All Institutions		Universities		Four-Year		Two-Year	
	Public	Ind.	Public	Ind.	Public	Ind.	Public	Ind.
Public H.S.	83.7%	16.3%	80.1%	19.9%	62.4%	37.6%	96.2%	3.8%
Private H.S.	63.5%	36.5%	58.7%	41.3%	38.7%	61.3%	93.5%	6.5%

Add Horizontally to 100%

Source: NIICU calculations from data collected by Alexander W. Astin, Margo R. King, and Gerald T. Richardson, The American Freshman: National Norms for Fall 1979 (Cooperative Institutional Research Program: American Council on Education and the University of California at Los Angeles).

of 1979. Of this number, 86.3% graduated from public high school and 13.7% graduated from private high schools. As indicated in greater detail by Tables B and C, independent colleges received 26.2% of their enrollment from students who attended private high schools. Moreover, on the average, private high school graduates are twice as likely as their public school counterparts to attend an independent college. Independent colleges are chosen by 36.5% of the independent high school graduates as compared to 16.3% of the public school graduates.

Unfortunately, no trend data is available so it is impossible to ascertain whether students from private high schools have increased or decreased their enrollment in independent colleges and universities over the years. All that can be stated is that they represent a significant percentage of our present enrollment.

3. Cost-Sensitivity

Past policy positions of NAICU state that a program of tuition tax credits should be sensitive to the varying costs of attending institutions of higher education. If a student decides to attend a public institution, the total bill for tuition and fees in the 1980-81 school year could be as little as $200 or as much as $1,400, depending on the level of state tax subsidy and state policies concerning tuition and fees, but on the average the total bill will be a little over $700. On the other hand, if the student decides to attend an independent institution, the total tuition and fee bill could be as little as $1,500 or as much as $7,380 -- or roughly $3,300 on the average. Comparing average tuition rates, the average price differential today between an independent college and a public institution is 4.7 to 1.

The impact of tuition tax credits on this tuition gap is a matter of special importance to independent colleges. Table D on the following page indicates the price differential ratio of a sample of tuition tax proposals. The sample confirms many suspicions that relatively speaking, the lower the percentage of costs covered, the lower the price differential caused by tuition tax credits. This occurs because the lower the percentage, the higher up the tuition and fee ladder a tuition tax credit proposal can reach. For example, 25% of tuition and fees up to a maximum credit of $500 would allow recognition of tuition costs up to $2,000; 25% of tuition and fees up to a maximum credit of $1,000 would allow recognition of tuition costs up to $4,000.

The table shows only three proposals which are neutral, or close to it, vis- a-vis the tuition gap: (1) 25% of tuition and fees up to a maximum credit of $1,000. Under this formulation, a student at the average public college would be eligible for a $175 tuition tax credit ($700 x .25 = $175). The student at the average independent college would be eligible for a $825 tuition tax credit (3,300 x .25 = $825). The effective tuition rate drops to $525 ($700 - $175 = $525) at the public institution, and $2,475 ($3,300 - $825 = $2475) at the independent

TABLE D

Estimated Effects on Tuition Gap of Various Tax Credits
Based on Percentage Limitations of Tuition

	$150				$250						$500						$1000			
	25%	ETR	50%	ETR	10%	ETR	25%	ETR	50%	ETR	10%	ETR	25%	ETR	50%	ETR	25%	ETR	50%	ETR
Public ($700)	$150	$550	$150	$550	$ 70	$630	$175	$525	$250	$450	$ 70	$630	$175	$525	$350	$350	$175	$525	$350	$350
Independent ($3300)	150	3150	150	3150	250	3050	250	3050	250	3050	330	2970	500	2800	500	2800	825	2475	1000	2300
Tuition Gap Ratio (4.7:1)		5.7:1		5.7:1		4.8:1		5.8:1		6.7:1		4.7:1		5.3:1		8.0:1		4.7:1		6.6:1

ETR = Effective Tuition Rate

Source: NIICU Data Services

college. Realistically this proposal, although competitive in cost terms -- slightly less than $2 billion for FY 1979 -- offers a substantially higher maximum benefit than Congress has talked about in the past. From a benefit distribution standpoint, Congressional Budget Office figures indicate public postsecondary education with 79% of the eligible population would receive 67% of the benefits. Private postsecondary education with 21% of the eligible population would receive 33% of the benefits. This public/private split is slightly better than the current benefits split under federal student assistance programs (70%/30%), although it will involve fewer dollars, and different students.

(2) 10% of tuition and fees up to a maximum credit of $500 retains the 4.7 to 1 price differential. Under this formulation, a student at the average public college would be eligible for a $70 tuition tax credit ($700 x .10 = $70). The student at the average independent college would be eligible for a $330 tuition tax credit ($3,300 x .10 = $330). The effective tuition rate drops to $630 ($700 - $70 = $630) at the public institution, and $2,970 ($3,300 - $330 = $2,970) at the independent institution. The $500 maximum portion of the credit is equal to the Packwood-Moynihan tax credit proposal which passed the Senate in 1978 and has been reintroduced this year. The Packwood-Moynihan bill, however, has a 50% limitation feature. The lowest percentage discussed by Congress to date has been 25%. Should elementary and secondary school tuition be included in the tuition tax credit proposal it is unlikely that a 10% feature would offer those taxpayers a very significant credit.

(3) 10% of tuition and fees up to a maximum credit of $250 enlarges the tuition gap slightly to 4.8 to 1. Under this formulation, a student at the average public college would be eligible for a $70 ($700 x .10 = $70) tuition tax credit. The student at the average independent college would be eligible for the maximum credit of $250 ($3,300 x .10 = $250). The effective tuition rate drops to $630 at the public college and $3,050 at the independent college. In addition, the same concern over the size of the benefit to elementary and secondary school taxpayers stated above is also relevant here.

Benefit distribution formulae unfortunately are not available from any source for alternatives (2) and (3). Raising the percentage to 15% or 20% was tested out, but not included, in the model because under all alternative maximums it produced a tuition gap greater than 5 to 1.

Although the proposals tested do not reduce the tuition gap, several of them do provide significant differences in the tax credit benefits provided public and independent college and university students, thus according recognition to the differing financial burdens faced by these taxpayers. In this context, a 25% or lower percentage limitation may be quite helpful. A tuition tax credit of 25% up to $250 provides an independent college student with a 43% larger benefit than a public college counterpart ($ 250 versus $175), while a 50% credit up to $250 provides an identical benefit. The greater the maximum, the larger the split. A 25%

credit up to $500 provides the independent college student a benefit 186% larger than the public student ($500 versus $175); however, adding a 50% limitation lowers the differential to 43% ($500 versus $350).

In conclusion, tinkering with the percentage of funds and the maximum size of the credit can account for a degree of cost-sensitivity as between the size of the benefit distributed to students at independent and public institutions. However, the most favorable formulae are at best neutral vis-a-vis the price differential between public and independent institutions.

A proposal has been discussed which would broaden the tax credit so that living expenses as well as tuition and fees could be covered. Advocates of this proposal argue that to confine expenses simply to tuition and fees is to deny tax relief to a large percentage of parents whose children attend low or no-tuition public institutions. They argue that all families with members attending postsecondary institutions should receive at least a minimal credit. From the standpoint of independent higher education, the inclusion of such expenses would dilute, if not destroy, any effort to achieve cost-sensitivity, for it is unlikely that the percentage and maximum credit figures could be stretched enough from a cost standpoint to accommodate the substantial increase in eligible expenses.

D. Need Sensitivity

NAICU policy statements have advocated making tuition tax credits sensitive to the varying levels of family income. Under this formulation of policy, low income taxpayers would receive a greater tuition tax credit benefit than high income taxpayers. As noted below, nearly all tuition tax credit proposals skew the benefits to middle and high income taxpayers. Another approach to need-sensitivity is to distribute the benefits so that students with the greatest "unmet" need (reasonable parental contribution, student aid grant funds and work) receive the highest benefit.

The creation of an income-progressive tuition tax credit has been advocated as a means of achieving need-sensitivity. Recent proposals to expand the day-care tax credit have incorporated this notion of using a sliding percentage of income. For example, incomes below $15,000 would be eligible for a credit equal to 75% of tuition and fees up to $500. Incomes between $15-30,000 would receive a credit equal to 50% of tuition and fees up to $500, and those with incomes above $30,000 would receive a credit equal to 25% of tuition and fees up to $500.

Tables E and F, which test out two formulae, demonstrate that a sliding percentage formula has no impact on the size of the benefit accorded independent college students. The maximum credit is given regardless of whether a 75% or a 20% percentage limitation is imposed. The chief difference in benefit levels occurs within the public college

TABLE E

Estimated Effects on Tuition Gap of Various Tuition Tax Credits
Based on a Percentage Limitation of Income -- 25% to 75% Sliding Scale

Control of Institution with Average Tuition and Fees	$150						$250					
	25%	ETR	50%	ETR	75%	ETR	25%	ETR	50%	ETR	75%	ETR
Public ($700)	$150	$550	$150	$550	$150	$550	$175	$525	$250	$450	$250	$450
Independent ($3300)	150	3150	150	3150	150	3150	250	3050	250	3050	250	3050
Tuition Gap Ratio (4.7:1)		5.7:1		5.7:1		5.7:1		5.8:1		6.8:1		6.8:1

Control of Institution with Average Tuition and Fees	$500						$1000					
	25%	ETR	50%	ETR	75%	ETR	25%	ETR	50%	ETR	75%	ETR
Public ($700)	$175	$525	$350	$350	$500	$200	$175	$525	$350	$350	$525	$175
Independent ($3300)	500	2800	500	2800	500	2800	825	2475	1000	2300	1000	2300
Tuition Gap Ratio (4.7:1)		5.3:1		8.0:1		14.0:1		4.7:1		6.6:1		13.1:1

ETR = Effective Tuition Rate

Source: NIICU Data Services

TABLE F

Estimated Effects on Tuition Gap of Various Tuition Tax Credits
Based on a Percentage Limitation of Income -- 20% to 50% Sliding Scale

Control of Institution with Average Tuition and Fees	$150						$250					
	20%	ETR	30%	ETR	50%	ETR	20%	ETR	30%	ETR	50%	ETR
Public ($700)	$140	$560	$150	$550	$140	$560	$140	$560	$210	$490	$250	$450
Independent ($3300)	150	3150	150	3150	250	3050	250	3050	250	3050	250	3050
Tuition Gap Ratio (4.7:1)		5.6:1		5.7:1		5.7:1		5.4:1		6.2:1		6.8:1

Control of Institution with Average Tuition and Fees	$500						$1000					
	20%	ETR	30%	ETR	50%	ETR	20%	ETR	30%	ETR	50%	ETR
Public ($700)	$140	$560	$210	$490	$350	$350	$140	$560	$210	$490	$350	$350
Independent ($3300)	500	2800	500	2800	500	2800	660	2640	990	2310	1000	2300
Tuition Gap Ratio (4.7:1)		5.0:1		5.7:1		8.0:1		4.7:1		4.7:1		6.6:1

ETR = Effective tuition rate

Source: NIICU Data Services

population, where a progressively larger benefit is produced. For example, Table E reveals that a low income student receiving benefits based on 50% up to $500 would receive a $350 tax credit as compared to a higher income student receiving $140 based on a formula of 20% up to $500.

It should be noted that use of the percentage to achieve need-sensitivity, albeit only within public colleges, removes it as a tool to achieve in the most optimum circumstances a degree of cost-sensitivity.

The tuition gap between public and independent colleges expands under all of these proposals. Most notable is the substantial increase in the gap between low income public and low income independent college students. In the example just cited, the gap would increase to 8 to 1.

There are two additions to the tuition tax credit formula which might bear on the results indicated by Tables E and F. Should an offset of tax-free awards be included in the formula, a slightly lower credit is likely to be available to low income students. Second, unless the tax credit is made refundable to allow taxpayers without positive income tax liability to claim a refund, the number of eligible low income taxpayers would further decline.

A different method of achieving need-sensitivity which has been advanced is the imposition of an eligibility income cap. Under the two forms of this proposal which have been discussed, taxpayers above a certain income level would simply be ineligible for the tuition tax credit, or in the alternative, within a certain income range the credit would be phased out. Both would probably reduce the cost of the proposal and focus benefits on low and middle income families. On the other hand, both concentrate benefits in the income levels which receive need-based student assistance. If the credit phase-out option is utilized, the complexity of taxpayer calculations would be substantially increased. However, a further recurrent difficulty is in defining middle income. In 1978, Senator Kennedy offered an amendment which would have phased out the tuition tax credit for adjusted gross incomes between $25,000 and $30,000. The amendment was defeated 52-21. Income caps of $40-50,000 have been suggested in the Guaranteed Student Loan Program in the last few years and failed.

If neither a sliding percentage nor an income ceiling is chosen, the only other major way to effect distribution of benefits by income is in the choice of an offset formula. In the 1978 discussion of tuition tax credits two formulae were discussed which would require the counting of various tax free awards against eligible expenses for the tuition tax credit. As Table G indicates, total benefits and the distribution of those benefits vary substantially. Both Senate Bill (A) and Senate Report (B) provide a 50% refundable tax credit up to $500. Senate Bill (A) provides that all tax free awards (federal and state student assistance, private scholarships, veterans benefits) should reduce eligible expenses

TABLE G

POSTSECONDARY TUITION TAX CREDIT PROPOSALS--DISTRIBUTION OF BENEFITS TO FAMILIES IN VARIOUS INCOME CLASSES FOR H.R. 3946, PROPOSED BY THE SENATE FINANCE COMMITTEE (LANGUAGE OF BOTH THE BILL AND THE REPORT) AND H.R. 12050, PROPOSED BY THE HOUSE WAYS AND MEANS COMMITTEE, FISCAL YEAR 1980 a/: NUMBER OF FAMILIES IN THOUSANDS, BENEFITS IN MILLIONS OF DOLLARS, AVERAGE FAMILY AWARDS IN DOLLARS

Income Class	A Senate Bill	B Senate Report	C House Bill
$0-5,000			
Families	174	762	147
Benefits	29	122	8
Avg. Award	167	160	54
$5-10,000			
Families	130	528	605
Benefits	22	89	41
Avg. Award	169	169	68
$10-15,000			
Families	224	660	898
Benefits	50	144	79
Avg. Award	223	218	88
$15-20,000			
Families	388	678	968
Benefits	79	156	99
Avg. Award	204	230	102
$20-25,000			
Families	571	631	892
Benefits	143	167	101
Avg. Award	250	265	113
$25,000+			
Families	1,530	1,599	2,195
Benefits	394	433	284
Avg. Award	258	271	129
Total			
Families	3,017	4,858	5,705
Benefits	717	1,111	612
Avg. Award	238	229	107

a/ Fiscal year 1980 is used rather than fiscal year 1979 for two reasons. First, tax credits claimed in fiscal year 1980 most closely approximate benefits received in academic year 1979-1980; and second, 1980 is the first fiscal year which reflects a full calendar year of eligibility for the tax credit.

Source: Congressional Budget Office, Federal Assistance for Postsecondary Education: Options for Fiscal Year 1979, page 43.

for the tax credit on a dollar-for-dollar basis. Thus, a student with $2,000 in federal assistance (BEOG and SEOG) and $1,000 in institutional scholarships who attends the "average" independent college would have $300 ($3,300 - 3,000) in eligible expenses to apply against the tax credit formula. Assuming the Senate bill formula of 50% up to $500, this student would receive a $150 tax credit.

Under Senate Report (B), a pro-rata offset formula is utilized. The formula would include multiplying the ratio of tuition and fees to the total student budget by the amount of student assistance received. That figure would be subtracted from tuition and, in this case, 50% of that difference, up to a maximum of $500, would be the tuition tax credit. Applying this offset formula to the example just cited, the ratio of average tuition and fees ($3,300) to total student budget ($6,100) is 54%. Average student assistance ($3,000) is multiplied by .54 and subtracted from tuition and fees ($3,000 x .54 = $1,620 and $3,300 - $1,620 = $1,680). The tuition tax credit would be half of that difference up to a maximum of $500. The student would receive a $500 tax credit, as opposed to the $150 credit under the first offset formula.

Utilizing a pro-rata reduction formula increases, as Table G shows, the overall benefits by 55%. It also substantially increases the number of families eligible whose income is below $15,000.

TABLE H-1

Income Distribution of Tuition Tax Credit Benefits
Utilizing Various Offset Formulae

Income Class	Senate Bill (A) dollar-for-dollar	Senate Report (B) Pro-Rata
Under $15,000	14%	32%
$15,000 - 25,000	31%	29%
$25,000 +	55%	39%

House Bill (C), in the following table, utilizes the same pro-rata offset provision as Senate Report (B). It provided for a 25% nonrefundable tuition tax credit up to $250. The income distribution is similar but not identical. The Senate Report version of a refundable tax credit provides a greater percentage of benefits for incomes below $15,000.

TABLE H-2

Income Class	House Bill (C) Pro-Rata
Under $15,000	21%
$15,000 - 25,000	33%
$25,000 +	46%

As noted earlier, need-sensitivity can be examined from two varying perspectives: distribution of benefits by income level, or distribution of benefits by the level of "unmet" need which exists after subtracting other forms of assistance available. The previous discussion has examined income distribution. This next section examines need-sensitivity from the standpoint of the existing unmet need gap.

In order to develop a tution tax credit formula which is sensitive to the varying levels of "unmet" need and so acts as a complement to a fully funded student assistance program, it is necessary to closely examine, as do Tables I and J, the distribution of student aid funds and parental and student loan burdens.

It should be noted that negative unmet need indicates that the average student was borrowing to meet the required parental contribution. This is more easily understood by looking at Table J which pulls out average loan burdens. Both tables are pre-MISAA. We can expect the unmet need figures in the $15-25,000 range to decrease substantially with MISAA.

Table J indicates that the heaviest concentration of loans is with families whose income exceeds $24,000. These families are just beyond the reach of MISAA. In both offset formulae discussed above, student and parental loan burden is treated as funds paid by the taxpayer and not counted in any of the offset formulae. These tables would suggest that the offsetting of tax-free awards helps to concentrate benefits to middle income and high income taxpayers who currently have the largest unmet need. A pro-rata offset would concentrate over 40% of the benefits in families with incomes in excess of $25,000. While a dollar-for-dollar offset would increase the percentage of funds going to this income group, the actual dollar benefit that would be received would be substantially lower for all income groups. Whether a tuition tax credit received at the end of a calendar year would substantially effect the level of loan borrowing done at the beginning of the year remains to be seen. Families with incomes in excess of $25,000 suffer, in part, from a cash flow problem. A tuition tax credit received twelve months later would not seem to help this aspect of the problem.

Tying a tuition tax credit formula more directly to unmet need calculations would not seem desirable because of the substantial complexity of

TABLE I

Distribution of Student Aid Resources for Dependent Undergraduates
Attending Independent Institutions
1978-79 Academic Year

Parents' AGI	Parental Contributions	Grants	Self-Help	Other Aid	Unmet Need	Total Budget
$0 - 6,000	$ 228	$2,281	$1,351	$ 374	$ 406	$4,640
$6,001 - 12,000	324	2,203	1,576	387	387	4,877
$12,001 - 18,000	910	1,756	1,722	330	313	5,031
$18,001 - 24,000	1,588	1,326	1,867	360	40	5,181
$24,001 - 30,000	2,485	1,289	1,903	255	- 469	5,463
$30,001 - 36,000	3,830	813	1,811	316	-1,053	5,717
$36,000 +	4,644	728	1,957	420	-1,717	6,032
All dependent undergraduates	1,254	1,649	1,650	369	149	5,071

Negative unmet need indicates that the average student was borrowing against the required parental contribution.

Source: NIICU Student Aid Recipient Data Bank

TABLE J

Distribution of Student and Parent Loan Burdens for
Dependent Undergraduates Attending Independent Institutions
1978-79 Academic Year

Parents' AGI	Student Loans	Parent Loans	Total Loan Burden
$0 - 6,000	$ 423	$ 0	$ 423
$6,001 - 12,000	568	0	568
$12,001 - 18,000	703	0	703
$18,001 - 24,000	881	0	881
$24,001 - 30,000	849	469	1,318
$30,001 - 36,000	771	1,053	1,824
$36,000 +	1,049	1,717	2,766
All dependent undergraduates	686	0	686

Source: NIICU Student Aid Recipient Data Bank

calculations the taxpayer or college would need to undertake. Further, the IRS would likely, through regulation, have its own version of a definition of unmet need which would further entangle this agency with our colleges.

In conclusion, varying degrees of need-sensitivity can be achieved by income caps, offset provisions, and by making the tuition tax credit refundable. Sliding percentage limitations based on income do not provide income-sensitivity within the independent sector. More specific formulae tied to unmet need are probably administratively too complex and run the risk of greater IRS involvement with our colleges.

5. Student Eligibility

Another important aspect of the tuition tax credit debate is what type of postsecondary students should be eligible for the tax credit. The 1978 conference agreement on tuition tax credits extended the benefits to undergraduate students who were either full time students or qualified half-time students during any four calendar months of the calendar year. Left out of this definition are the approximately 1.8 million students who attend college part-time as well as all graduate and professional students. Approximately one million students are currently pursuing Master's and Doctor's degrees. Another 250,000 are pursuing professional degrees. Graduate and professional students represent 12% of the total enrollment.

For independent higher education, graduate and professional students account for nearly one-fifth of the total enrollment. These students are ineligible for most forms of general student assistance provided under the Higher Education Act. What few programs exist to support graduate education have faced cutbacks in recent years Extending tuition credits or other forms of tax allowances to this population could provide a helpful new source of funds.

6. Regulatory Burdens and Legal Considerations

Tuition tax credit advocates contend that providing educational assistance through the tax code is an administratively more efficient way to distribute benefits than offered by direct grant assistance programs and would not increase paperwork burdens on taxpayers or institutions.

A program of tuition tax credits would be administered by the Internal Revenue Service. It can safely be assumed that the Service would issue regulations and/or guidelines governing the use of the tax credit. Great care has been taken in the leading tuition tax credit proposals to utilize definitions from the Department of Education regulations for key terms such as "eligible institution", "full time" and "qualified half-time" students. Thus, minimal new definitional problems or contradictions between the departments should be expected. Two potential areas of concern for independent colleges, however, can be anticipated.

(1) Should a program of tuition tax credits contain a pro-rata offset of student aid funds, it would seem necessary for the IRS to establish some guidelines as to how multi-purpose, tax-free awards are to be allocated. In determining an allocation formula, total college expense budgets will need to be established. To make this determination, the IRS could develop a series of average college expense budgets, ask colleges to provide directly or through the student specific college expense budgets, or borrow expense budgets used by the Department of Education. This could provide an aggressive IRS with the proverbial "nose of the camel under the tent" with regard to tuition-pricing policies, especially when coupled with the new data the IRS would gather as a result of asking for validation of the amount of tuition paid by the taxpayer. For example, most tuition tax advocates see tuition tax credits as a way to lower tuition. Opponents have argued this will not happen. Institutions will simply "capture" the credit by raising tuition. It seems likely, especially given inflation, that college tuition will continue to rise in the next few years. Will this increase be misinterpreted as an attempt to recapture? Will Congress, or the IRS on its own authority, look into tuition pricing policies with an eye toward further regulation that would penalize colleges which have raised tuition beyond some magic point or percentage? Of course, this is all speculative and may never come to pass, but given continuing budget consciousness in Washington and the existence of the "recapture argument", it seems worthy of mention.

(2) Various methods of validating tuition and fee expense paid could require increased paperwork. The least burdensome approach would be IRS acceptance of a cancelled check or receipt from the institution for funds directly paid by the taxpayer. Spot taxpayer audits may lead to inquiries by the IRS to colleges to ascertain correctness of information provided by the taxpayer, but this would not greatly increase the institutions' administrative burdens unless the IRS uses the inquiry as an excuse to go "fishing".

Some will ask whether a tax allowance such as tuition tax credits is legally equivalent to direct federal assistance and thus makes the institution a "recipient" of federal assistance. "Recipients" are required to comply with a range of federal regulations including handicap (Sec. 504), sex-discrimination (Title IX), and racial discrimination (Title VI) regulations. The 1978 conference agreement on tuition tax credits specifically incorporated a provision that such funds should not be treated as federal assistance to the institution. It would probably be advisable to obtain a similar provision in any new bill.

In summary, it is realistic to assume some increase in the regulatory burden on colleges from a program of tuition tax credits. IRS audits of nonprofit organizations, including colleges, have increased in recent years. Whether IRS administration of a tuition tax credit program would lead to more widespread or more detailed audits is difficult to predict.

Tuition Tax Credit Summary

If the NAICU membership should wish to pursue tuition tax credits, the most desirable elements to obtain would appear to be:

1) A formula limited to tuition.

2) A low percentage of tuition covered (25% or less).

3) A high maximum credit ($500 or more).

4) A pro-rata offset of tax-free awards.

5) The inclusion of graduate students.

6) The inclusion of a statement which prohibits independent colleges and universities from being considered in receipt of federal assistance because their students benefit from tuition tax credits.

B. Details of Other Tax Allowance Proposals

Senator Dole (R-KS), the Chairman of the Finance Committee, and Congressman Downey (D-NY), a member of the Ways and Means Committee, have introduced similar bills which would encourage parents through tax incentives to save for their children's college education or first-time home purchase. The Dole bill has been introduced in the House by Congressman Conable (R-NY), the ranking member of the Ways and Means Committee. The education components of these bills are nearly identical to the PASS Plan set up in New York in 1978. A third bill to expand the withdrawal features of Individual Retirement Accounts to allow a limited withdrawal for educational expenses or home purchase without penalty will soon be introduced by Senator Chafee (R-RI) and Congressman Henson Moore (R-LA), both members of the tax writing committees.

A recurrent concern of the tax writing committees over the last few years has been the tilt in the income tax system toward consumption and away from savings. Americans today save on the average only 4.5% of their disposable income as compared to double digit savings in Japan and many western European countries. Improving the savings rate is seen as an integral part of improving this nation's capital formation and productivity. Luring taxpayers into greater savings by focusing on popular goals, first time home purchase and helping their children go to college are viewed as effective ways of increasing savings. Further, they correspond to other Congressional policy goals of helping families buy homes and go to college. In examining these proposals, it is important to keep these twin motivations in mind.

A comparison chart of the major provisions of the Dole and Downey separate educational savings account plans is included on the next page. Both proposals are essentially tax-deferral and transfer schemes. The parent takes up to a $1,000 or $1,500 tax deduction against taxable income for funds deposited in the account. The parent may withdraw funds from the account to pay for the educational expenses of the child. The child, upon a certain age or completion of school, includes over a specified time period the amounts withdrawn from the account as ordinary income subject to the normal rules of taxation. In theory, the child will have a modest income in his/her early years of employment and will thus owe little additional tax liability as a result of taking such funds into income.

Given that the impetus for educational tax savings plans was a desire to foster savings and given the newness of the proposals, their relationship to tuition tax credits, if any, has not been fully articulated. Some supporters of tax savings plans also support tuition tax credits. Others oppose such credits. This paper examines the implications of tax savings plans as either an alternative to tuition tax credits or a complement to such proposals.

CHART I

Comparison of Legislative Proposals That Would Provide Above the Line Deductions of Contributions Made to Savings Accounts Established for Educational Purposes

Bill/Sponsor:	S. 24 - Dole, Chafee, Danforth, Garn, Hatfield, and Wallop H.R. 178 - Conable	H.R. 190 - Downey
Definition:	A trust administered by a qualified bank, created for the purpose of paying the higher education or vocational school expenses (tuition, fees, and a "reasonable" allowance for means and lodging) of the taxpayer or a child of the taxpayer until age 21 or until college has been started.	Educational expenses include transportation costs also. Life of trust extends for a specified period of time as long as the beneficiary is a member of the armed forces of the United States on active duty, Peace Corps volunteer, full-time volunteer under Domestic Volunteer Service Act or in service with an other voluntary organization approved by the Secretary.
Deduction allowed:	A deduction up to a maximum of $1,000 in either cash or appreciated property (fair market value at time of transfer) per calendar year. Life insurance arrangements would not qualify. Starting in 1982, an inflation adjustment of the limit is added.	A deduction up to a maximum of $1,500 in either cash or appreciated property (fair market value at time of transfer) per calendar year.
Limitations:	- An individual can only be the beneficiary of one account. - Contributions by more than one individual are still limited to $1,00 total yearly contribution.	A contribution to an account may not exceed $1,500.
Tax recovery:	If the trust funds are used for qualified educational expenses, the individual, upon reaching age 25, includes in his/her taxable income at a rate of 10% per year (for the next 10 years) the sums removed from the account.	If the PASS account funds are used for qualified educational expenses, the individual, at the time he no longer receives benefits from the account and is no longer a student, includes in his/her taxable income at a rate of 20% per year (for the next five years) the sums removed from the account.
Loss of exemption:	If the account is used for other than the qualified purposes, its exempt status ceases and it is subject to immediate taxation. In addition, a 10% penalty is levied.	Same.
Revenue impact:	The deduction would be phased in over a three year period. First year revenue loss would be $2 billion and increase to $4 billion in the third year when fully phased in.	Not available.

In costs, the revenue loss associated with the education portion of the Dole bill (S. 24) is similar to most tuition tax credit proposals.

S. 24 (in billions)

Accounts	1981	1982	1983	1984	1985
Housing	2.1	2.2	2.8	3.2	3.6
Education	2.4	2.9	3.5	4.1	4.8
Total	4.5	5.1	6.3	7.3	8.4

If the Dole proposal is phased in over three years with an initial maximum deduction of $500 for both accounts, the first year cost (1981 estimate) of $2.1 billion ($1.2 billion for education) is equivalent to the approximate cost for FY 1981 of the conference agreement in 1978 on tuition tax credits (35% up to $250).

It should be remembered that the Dole proposal is a deduction, not a credit. A tax credit provides all taxpayers, regardless of income level, with an equal benefit. A deduction against taxable income provides different income level taxpayers with a different benefit, because of the progressive nature of our system of income taxation. Without the deduction, the cost to every taxpayer of sequestering these funds is a dollar for every dollar contributed. For a taxpayer in the 50% tax bracket, deductability reduces the cost to 50 cents for every dollar contributed. The taxpayer in the 20% tax bracket has his/her cost reduced to 80 cents for every dollar. Thus a deduction provides a higher level of tax "subsidy" for the high income taxpayer than for the low income taxpayer. The interest earned on these accounts would also be subject to deferral and then transferred to the child. Utilizing a tax deduction rather than a tax credit increases the tax advantage to the high income, high saving taxpayer. In tax terms, this differential tax benefit is not necessarily undesirable; it may induce a higher degree of saving because of greater savings elasticity in the higher income brackets than would a tax credit for the same purpose.

Because of the newness of the proposals, income distributions of benefits are not yet available. However, it can be safely assumed that a greater proportion of benefits will go to the middle and upper income taxpayers. The fact that neither bill includes a minimum amount which must be deposited should be of some assistance to the lower income taxpayer. However, the majority of families with incomes below $10,000 have no positive tax liability which would need to be reduced by utilization of this deduction. This is likely to limit low income taxpayer participation.

Tuition tax credits and tax savings plans have different target populations. Tuition tax credits channel tax benefits to taxpayers with

dependents in college. While there are no time limitations included in the major proposals, the average taxpayer would probably receive four or five years of tax credit eligibility. Tax savings plans are geared to a younger taxpayer, with time to save for their dependents' higher education costs. The eligible population is substantially larger than that for tuition tax credits since it covers all taxpayers who potentially may have children in college. Such plans offer tax deductions for a longer time period which could stretch to 15 or 20 years. Further, tuition tax credits provide benefits for funds the taxpayer has expended on education in any given year. Tax savings plans condition benefits on the amount of money sequestered each year for savings. Thus, while the amount of a tuition tax credit benefit is likely to remain fairly stable over the college years (unless the dependent switches colleges), the tax benefit of sequestered savings may substantially fluctuate depending on the yearly financial picture of the taxpayer.

Ignoring for the moment the years necessary to gear up for a tax savings plan, a favorable dollar comparison with a tuition tax credit program emerges in the long term if such plans accomplish their aim of inducing a higher level of savings. Under a generous tuition tax credit proposal a taxpayer may receive a $500 credit per year for a $2,000 total during the college years. For a middle-income taxpayer, this would not seem to be a sum sufficiently high enough to solve their financial problem of affording an independent college. More importantly, in the year in which a college choice is being made $500 would be the sum available to support the first year of study. It would also seem that $2,000 spread over four years would not significantly change how a parent finances their child's education. Further, since the taxpayer gets the credit rather than the student, it is more likely to be applied against the parents burden than the burden assumed by the dependent student.

A tax savings plan potentially could provide the taxpayer with greater funds at their disposal than offered under a generous tuition tax credit plan ($500 or $1,000 a year for 10 years or 15 years provides savings ranging from $5,000 to $15,000, plus interest earned). These funds can be used at any point for educational expenses -- all the first year, divided equally, etc. This provides the taxpayer with greater flexibility than offered under a program of tuition tax credits. Moreover, the taxpayer has funds in hand at the point a decision over choice of college commences, which could be helpful in determining whether the taxpayer believes he/she can afford to send their dependent to an independent college.

On the other hand, a taxpayer who has saved $10,000 could apply that sum to the total costs of attending a public college and find it covers close to three years of such attendance as opposed to a little over a year at an independent college. Further, the price of education, especially given inflation, is likely to rise. The political as well as economic fallout caused by parents who have saved for their dependents education and found their savings insufficient should be noted.

Laying aside the issue of a college decision, tax savings plans can make a substantial difference in how an independent education is financed. As Table J indicates, parents with income in excess of $24,000 who send their children to independent colleges, usually need to borrow a portion of their parental contribution which, for academic year 1978-79, was $2,485. Assume the taxpayer has been able to save $14,000. Applying $3,500 each year from funds deposited in the savings plan the taxpayer has contributed a sum slightly in excess of both the parental contribution and the average student loan borrowings ($849) for that income level. Further, assume that after college the student is employed at $15,000. (Starting salaries for B.A.'s range from $12,000 to $18,000 on the average.) The student's tax liability in fiscal year 1981 (one exemption taken) equals $2,339. If the student has withdrawn $14,000 from the educational savings account, there is a requirement that such sums be taken into income after college. Assuming a 10% per year repayment scheme, the student's taxable income increases to $16,400. In FY 1980, his tax liability would equal $2,733. This represents an increase in tax liability of $394. This sum is slightly lower than the yearly loan liability which would have to be paid under the existing Guaranteed Student Loan program. Although should the student's income increase substantially over time, the tax liability could become greater than the GSL benefits. However, increased savings which are tax induced would seem a way to lower overall parent and student debt burden.

A successful tax savings plan offers the taxpayer a larger tax benefit both yearly and over time than a tuition tax credit. However, from an institutional perspective, it should be noted that there is no provision for achieving the type of cost-sensitivity in such plans that might be achievable under a tuition tax credit program. This could result in the widening of the apparent real cost differential between public and independent colleges.

One of the current disincentives for saving for an education is that most federal and state need based programs, in calculating student need, reduce eligibility if savings exist. If a tax savings plan is to be seriously considered, some changes in student aid eligibility ought to be considered to avoid penalizing parents who have made sacrifices to save funds for education.

Both the Dole and Downey bills create separate restricted savings accounts. The Chaffee-Moore approach builds on an existing retirement savings program. Under present law individuals without private pension plans can set up a restricted savings account for their retirement and deduct 15% of their income, or $1,500 a year, from gross income, whichever is lower. The Chaffee-Moore plan would extend eligibility to all employees regardless of whether they participate in an employer-sponsored retirement plan. Maximum yearly tax deductable contributions would be raised to $2,000 per year. The proposed bill would allow an employee to withdraw without penalty up to $10,000 from the account for first time home purchase or for a child's higher education. At the time of

withdrawal, the taxpayer (the parent) would be required to take the amount withdrawn into income in that year. The theory behind this proposal is that younger employees might be hesitant "to invest funds for retirement savings which may still be needed for major family commitments".

A principal advantage of the Chaffee-Moore proposal is the flexibility it offers the taxpayer. The Dole and Downey bills create segregated accounts which can only be used for education which might lead to taxpayer reluctance to commit any substantial portion of their savings for fear of other needs arising. Two drawbacks to this proposal as compared to Dole and Downey do exist. First, there is no maximum limit on what can be set aside in the Dole and Downey bills, while in the Chaffee-Moore proposal the maximum is set at $10,000. Given inflation and rising energy costs, a $10,000 maximum will probably be less than the cost of one year's attendance at an indpendent college by the time the taxpayer's child is ready to go to college. Second, in the Chaffee proposal, the parent, not the child, is subject to income tax on the withdrawn amount. Thus, a parent would be taking into income a significant sum in probably his/her peak earning period. Further, under Dole and Downey, the student's tax liability is deferred for a period of time which serves to reduce the cost of repayment assuming the continuation of inflation.

In conclusion, tax savings plans are a fairly new idea which may hold some promise for meaningful assistance to parents and students who may choose to attend an independent college. In viewing such plans as a trade-off against tuition tax credits, it is important to keep in mind that the two tax programs would serve different populations. From the standpoint of independent colleges, the tax savings plan does not, in the short run, provide assistance to parents to help pay their tuition bills; in the long term, if substantial savings are encouraged the amount of assistance is much more substantial than the $150-500 average yearly tuition tax credit which a parent may receive. The big "if" in this proposal is whether the tax incentive is sufficient to produce the necessary savings and further, whether today's family budgets have enough elasticity to take advantage of this savings program.

Should one conclude that savings elasticity does exist, it would seem possible to combine tax savings plans with a time-linked tuition tax credit proposal so as to offer taxpayers with dependents in college who have not had the savings incentive some immediate relief. For example, consider a program of tuition tax credits at 25% of $500 for elementary through postsecondary education which would expire in the fifth year for postsecondary education, but continue for the lower grades. Besides providing immediate assistance to taxpayers with children in college, this would still allow elementary and secondary tuition tax credit advocates to present their best case to the U.S. Supreme Court as regards the constitutionality of such programs. The Supreme Court would review a program which, during the time it was under examination, would still likely distribute the majority of benefits to postsecondary students and

their families. One difficulty with combining tuition tax credits with tax savings plans is that in the first few years of overlap, the revenue loss would be substantial.

The tax savings plans as written are confined to postsecondary education and thus would not meet the needs of private elementary and secondary school parents. It might be possible to include private high schools in the plan; realistically there would not seem to be enough time to save if elementary school students were added. Additionally, the two plans that provide for transfer of tax liability to the student would have to be revamped if tuition for minors was included in the coverage.

C. Vouchers

For several years, educational vouchers have been extensively discussed and debated as a means of allowing families to choose the type of education best suited to their children. In higher education, the concept of an educational voucher has been, in part, incorporated into a number of programs and specific proposals. Some observers believe that further extensions of this concept in higher education may result in the development of a major new coordinated mechanism for providing governmental support to higher education.

In its purest and simplest form, an educational voucher system provides a parent or student with an entitlement to education valued at the per student cost of education at an approved institution, with tuition equal to the per student cost. It simply pays for education without regard for the eligibility criteria present in most current programs of support for education such as cost of education, level of income, geographic location, and other formula restrictions.

Some observers have suggested that a program of tuition tax credits could be viewed as a step toward the creation of a voucher program. A tuition tax credit does establish a taxpayer's entitlement to recovery of a portion of the funds spend on education. Further, it permits the taxpayer, within a wide range, a choice of the institution at which expenses will be incurred. It differs from a true voucher in that only a portion of expended funds are recovered. Additionally, as demonstrated earlier, it appears impossible to develop a tuition tax credit formula that will give full recognition to the various levels of tuition cost, so long as Congress insists on establishing a maximum credit.

An inherent difficulty of moving from a tuition tax credit program toward a true voucher is found in the nature of the tax system. The value of a tuition tax credit is dependent on the taxpayer having positive tax liability, sufficient to make use of the credit. Making the tuition tax credit refundable, thus allowing all taxpayers to enjoy the tax benefit, only solves a portion of the difficulty. A tax credit, unlike a voucher, is received after the taxpayer has already expended funds on education. Cash flow problems are likely to still exist for low and moderate income taxpayers, even if they were granted a generous after-the-fact tax credit. Tax allowance schemes, however expanded, still maintain these basic deficiencies. In higher education, it may be more useful to examine modifications of existing federal assistance programs rather than new tax allowances as a means of obtaining vouchers.

The first major attempt at higher educational vouchers came with the post-World War II G.I. Bill of Rights which provided each returning serviceman with essentially free higher education at the institution of his choice, plus a small subsistence allowance. It was both a costly and a highly popular program through which millions of servicemen obtained a

college education they could not otherwise afford. The G.I. Bill offered to veterans of the post-Korea conflict and Vietnam era was less generous. Gone was the notion of free tuition at the institution of his choice. Instead, the serviceman was offered a flat monthly allowance affected only by the number of dependents and length of service. For veterans entering the service after 1977, educational assistance was confined to a contributory program. Thus, what began as a voucher program evolved into a much more limited entitlement program with dollar equity driving the engine rather than educational choice.

Shortly after enactment of the Higher Education Act of 1965, certain political and educational leaders espoused a concept of free higher education for the first two years of study after completion of secondary school. Senator Claiborne Pell (D-RI) began with that concept when he developed his proposal in 1971 to create the Basic Educational Opportunity Grant (now Pell Grant) program. Pell Grants were designed to be true educational vouchers which provided eligible students with an entitlement to higher education valued at a certain dollar level equal to a percentage of student cost of education which could be used at an approved institution.

An extension of the Pell Grant type of voucher was proposed during the 95th and 96th Congresses in the form of direct benefits to students in elementary and secondary schools using modified Pell Grants program criteria. Although the proposal was not accepted as an amendment either to the Elementary and Secondary Education Act or the Higher Education Act, many observers expect it to be the subject of Congressional hearings during the 97th Congress.

During this period, another kind of educational voucher was proposed by John R. Silber, President of Boston University. The Tuition Advance Fund was a loan voucher under which any student could borrow whatever he needed to pay for his higher education, and repay that amount over his lifetime through the federal taxation system. TAF attracted many supporters and opponents in the higher education community and in the Congress, but was not enacted into law.

The Higher Education Act Amendments of 1980 authorized a limited form of higher education voucher by establishing a federal policy goal that federal student assistance plus reasonable parental or independent student contributions and state funds matching SSIG payments should be available to meet 75% of a student's cost of education. To transform this federal policy goal into a full blown voucher system, it would be necessary to expand its coverage to include institutional operating costs over and above the share of those costs which are charged to students. It is extremely doubtful, given the cost implications of such notions, that Congress would move in this direction within the next few years. Moreover, changes of such magnitude probably could and should not be considered until the next reauthorization of the Higher Education Act in 1985.

Reaction to the concept of the voucher system to finance all types of education has been mixed. Supporters of the voucher concept contend that the key reasons for an education voucher is to allow students a choice in their education. They argue that vouchers foster diversity in education by permitting students to choose between public or private schools; permit competition among schools and individuals on an equal basis; and improve the educational programs in schools because only those programs demanded would be allowed to continue. Opponents of vouchers believe that this method places education in a competitive marketplace, where it does not belong. Further, they argue that diversity within the classroom would be sacrificed for a diversity of schools. The issues of racial and income segregation also arise because of the fears that they will be perpetuated through the use of vouchers as a protection device. Finally, an argument repeatedly used against any measure to provide federal financial assistance to private education is the constitutionality of the use of public subsidies to finance church- related schools.

The following key issues need to be examined in order to analyze any educational voucher plan.

1) School Participation. What schools would be allowed or required to participate in a voucher system? Should a school have the option not to participate?

2) Voucher Administration. Who would be responsible for administering the voucher plan? State or federal government?

3) Financial Resources. Would a school operate solely on funds received from their student's vouchers or could a school utilize outside resources? Could a school charge a higher tuition than provided by the voucher?

4) Special Students. Should a school receive extra monies for enrolling students with special needs -- such as the handicapped -- to ensure that they are chosen?

5) Independent Status. Would this type of financial arrangement endanger the status of independent colleges and universities in the government's view?

6) Program Survival. Should only those programs that students find attractive be allowed to survive? To whom or what is the school responsiblity in planning their curriculum?

7) Student Attendance. Who would decide what students could attend certain institutions in a model that was founded on choice in education?

8) Accountability. How would an effective means of accountability be employed for both academic programs and teachers?

9) Value of Voucher. How is the value of the voucher calculated? Is it equal to the cost of education or the cost of instruction? How would current financial aid programs be treated in the voucher system? Is the amount of the voucher equal or sensitive to the costs of educational programs? Would vouchers lead to the imposition of a tuition cap by the federal government in an effort to control and minimize their costs?

10) Voucher Recipients. What students would receive a voucher? Would all receive a voucher? Would vouchers be equal in amount? What is the basis for determining the value of a voucher?

Given the recent passage of the Higher Education Act Amendments of 1980 and the economic parameters in which Congress has to operate this year, it is unlikely that Congress will take up the restructuring of federal assistance to higher education. Should substantial cutbacks in federal assistance and/or a program of tuition tax credits be adopted, it would then seem most appropriate to review basic restructuring options. The questions listed above might provide a starting point for a more detailed discussion than is possible in this paper.

CONCLUSION

The Emerging Political Context

This section seeks to place tuition tax credits and tax savings plans in a political context. Vouchers, as indicated earlier, are still too undeveloped as a concept to receive serious legislative consideration in the 97th Congress.

In assessing the opportunities and risks that exist in advocating a new tax allowance with the size revenue loss of tuition tax credits and tax savings plans, it is important to recognize that both the opportunities and risks extend not only to considerations within the tax writing committees, but could well trigger reactions in the authorizing and appropriating committees responsible for federal assistance to higher education. Further, factors outside of education, such as the general condition of the economy, affect decision-making when, as here, a program with a $1-4 billion revenue loss is contemplated.

To look first at the general economic outlook, the picture is gloomy. The escalating federal deficit will require the making of some hard choices. The new Administration's strong support for tax reduction and relief as a tool to shore up the lagging economy would also seem to require cutbacks in direct spending. Across the board cuts in all federal programs -- including federal educational programs -- appear to be an approach under serious consideration. Should these proposed cuts involve the Pell Grant program, a program of tuition tax credits would not be sufficient to fill in the gap created. Table K, prepared in 1978 by the Congressional Budget Office, shows the distribution of incremental funds a student would receive under any of the three then proposed grant expansion programs and the three proposed tuition tax credit proposals. While the final formula adopted for the then- Basic Grant program was a combination of all three, the table does demonstrate that for families with incomes from $15-25,000, the federal grant approach provides nearly twice as much real support as under any of the tuition tax credit proposals.

Various Reagan policy advisors have suggested cutting back or eliminating a host of specific programs. In education, elimination of educational benefits for social security recipients and substantial cutbacks in the interest subsidies of the Guaranteed Student Loan program are most frequently mentioned. The FY 1982 Carter Administration budget, which the new Administration will probably start from, calls for the elimination of the in-school loan subsidy on GSL, dropping the special allowance paid to bankers to encourage them to make such loans and recasting the loan program now open to all students to only those students with demonstrated unmet need. Should the Congress adopt a needs test for GSL, the resultant decline in the lending community's willingness to continue to make these loans could signal the dismantling of the principal federal support program for middle income students. Although the Middle Income Student

TABLE K

DISTRIBUTION OF INCREMENTAL INCREASES OVER CURRENT LAW OF MAJOR STUDENT ASSISTANCE PROPOSALS BY INCOME CLASS: BENEFITS IN MILLIONS OF DOLLARS, FISCAL YEAR 1979 FOR DIRECT SPENDING PROGRAMS AND FISCAL YEAR 1980 FOR TAX EXPENDITURE PROGRAMS

Income Class	Admin. BEOG Proposal	Senate BEOG Proposal	House BEOG Proposal	Senate Finance Bill	Senate Finance Report	House Ways and Means Bill
$0-15,000						
Benefits	438	286	418	101	355	128
Percent	46	25	32	14	32	21
$15-25,000						
Benefits	509	750	749	222	323	200
Percent	54	64	58	31	29	33
$25,000+						
Benefits	0	125	125	394	433	284
Percent	0	11	10	55	39	46
Total						
Benefits	947	1,161	1,292	717	1,111	612
Percent	100	100	100	100	100	100

Source: Congressional Budget Office, Federal Assistance for Postsecondary Education: Options for Fiscal Year 1979, Page 46.

Assistance Act (MISAA) extends student grant eligibility to families with adjusted gross income slightly in excess of $25,000, most families must combine the grant with substantial loans to afford an independent college. For those families who exceed the MISAA income limits on grant eligibility, GSL is the only federally sponsored program for which they are usually eligible.

Against this backdrop, any discussion of creating a program of tuition tax credits or tax savings plans takes on a different coloration. The questions which need to be answered include: Can a tax allowance program replace, in whole or part, the lost benefits which will result from the anticipated cutbacks in the student loan program? Will advocacy and/or adoption of tax allowance proposals provide the excuse or rationale for cutbacks in federal support for the loan or grant programs? And, finally, what are the prospects of adopting a tax allowance program that either fills a cutback gap or complements existing student assistancce programs?

From a dollar standpoint, tuition tax credits of the size being discussed ($250-500) would not seem to be a sufficient replacement for the GSL program with its $2,500 a year dependent student loan limits if that program is recast to serve students with a federal government definition of "unmet need". Further, the timing would exacerbate the cash flow problem most middle income families face. Student loans are secured before the start of the school year; tuition tax credits will be realized several months after the expenditure has been made.

For students who would continue to be eligible for GSL, albeit at a higher overall cost, another problem is present. A program of tuition tax credits provides relief to the taxpayer -- the parent. The GSL loan burden is assumed by the student. In dollar terms, a tuition tax credit could provide a benefit sufficient to offset the cost to the student if the in-school interest subsidy is abandoned and if the parent assumed the obligation. For example, a student who borrows $1,000 a year for each of four years would, at 9% interest, be required to repay $90 the first year, $180 the second year, $270 the third year, and $360 in the fourth year for a total of $900. In theory, a tuition tax credit equal to $250 a year would offset this cost. However, because students with substantial unmet need usually have modest tax liability, it is doubtful whether they could make full use of a tax credit.

A tax savings plan program would do little in the short term to alleviate problems caused by cutbacks in the GSL program because its benefits are targetted at potential college students, not individuals about to enter, or currently in, college. In the long term, if substantial new savings materialize as a result of this tax incentive, middle and upper income taxpayers may enjoy a benefit equal to or greater than provided under GSL. For the lower income taxpayer, it is unrealistic to assume substantial savings could be amassed. Thus, a program of tax savings would not offer any countervailing relief to lower income taxpayers, even

in the long term, from cutbacks in the student loan program interest subsidies.

Turning to the issue of whether advocacy and/or adoption of a tax allowance program for postsecondary education would exacerbate a difficult fight over retention of the heart of the GSL program, the answer is not clear. While handled by two different sets of committees initially, the budget process does increase the Members' awareness of activities of other committees. Further, lack of familiarity with the details and purposes of each program could cause a significant number of Members simply to line up the bottom line costs. The Carter budget estimates its cutbacks in GSL will save $878 million in FY 1982. A program of tuition tax credits is likely to cost at least $1 billion in FY 1982 if enacted this year. On paper, higher education wins. In reality, the independent sector, with its greater reliance on substantial loans, loses. On the other hand, some observers believe that threats of student aid cutbacks could strengthen higher education's bargaining position against such cuts by improving our chances to get a program of tax allowances to the point where the Administration and Members may make fewer student aid cuts in order to avoid a costly new tax program.

Underlying the previous discussion of loan cutbacks has been the assumption that the tax writing committees would be willing to pass a tax allowance program. The discussion that follows examines this premise.

As a result of the election, changes have occurred in the membership of the tax writing committees. In the Senate, Senator Dole (R-KS) has assumed the Chairmanship of the Senate Finance Committee. He is the principal author of a tax savings plan and a past supporter of tuition tax credits. Four new Members have been added to the committee; the three new Republican Members have advocated tuition tax credits in the past. The Senate Finance Committee has regularly reported out tuition tax credit proposals and can be expected to do so in the future.

On the House side, Congressman Dan Rostenkowski has assumed the Chairmanship of the House Ways and Means Committee. In the 1978 conference over tuition tax credits, he played a leading role in fashioning the final House offer to the Senate -- secondary plus postsecondary tuition expenses. Of the 22 Members of the Ways and Means Committee who were in office during the 1978 discussion of tax credits and still serve on the committee, 18 Members voted in Committee for tuition tax credits.

Thus, in both Committees there is a substantial base of support for the concept of a tuition tax credit. The problem, however, is likely to be a question of where a program of tuition tax credits falls on each Member's priority list. Tax savings plans for higher education are still too new to have developed the base of support necessary to get on anyone's priority list. It's sponsors view the higher education community and, to a lesser extent, the bankers as the bill's natural frontline constituency. Unless these groups push it, it is unlikely it will progress very far.

The new Administration and the majority of Members of the Senate Finance Committee have indicated their preference for a tightly structured tax reduction proposal geared toward increasing economic productivity and encouraging capital formation as well as some cuts in the individual income tax rates to offset inflation and social security tax increases as their first order of business. Although it is less certain, the House Ways and Means Committee appears similarly inclined.

A 1981 tax reduction proposal will originate in the House Ways and Means Committee. If past practice is followed, the Committee will first decide the appropriate revenue loss and then the "wish list" of tax code changes the Members would like to see in this tax measure. Thus, in a very real sense tuition tax credits and tax savings plans will be competing with other proposed changes that affect the tax burdens on individuals. These proposals include rate cuts, increases in the zero bracket amount (standard deduction), reduction in the marriage tax penalty, and the extension of the deduction for charitable giving.

In a broader sense, tuition tax credits and tax savings plans are also competing with a proposed major liberalization and simplification of the rules for depreciating both tangible personal property and real estate, changes in the rate of corporate income taxes, investment tax credit modification, and increased deductions for retirement savings. In this type of competition, tax savings plans for education are probably the closer fit with a tax bill focused on economic renewal.

The Reagan Administration's tax package is expected to be received by the tax writing committees in mid-February. Whether it includes tuition tax credits or other tax allowance proposals will be the first signal as to whether a tax allowance for education is likely to be included in this first tax bill. Given the Administration's desire to get a tax package through Congress by July 1981, it may be that they will hold back their support for tuition tax credits fearing the controversial nature of elementary and secondary tax assistance might slow the process down. It should be noted that the majority of Congressioanl supporters of tuition tax credits are equally determined that a tax cut containing at least across the board rate reductions for individuals and liberalization of the business depreciation allowance pass Congress this session.

What may come to pass is the creation of a separate -- apart from the major tax reduction bill -- tuition tax credit bill. This was the course followed by the Ways and Means Committee in 1978. Should this happen, the revenue loss and general budget implications of the proposal would be highlighted, as well as its relationship to other programs that support education. Sufficient revenue flexibility would have to be left in the budget to accomodate this proposal. If it proceeds as a separate bill, it is difficult to predict its timing. One scenario would be to thrash out the formula bugs and the issue of inclusion of elementary and secondary this year and push it through next year.

The short term consequences of a tax allowance proposal for education are difficult to predict. If it should be included within the main tax reduction package, it might be viewed as competing with the charitable contributions legislation (CCL) which extends the deduction for charitable gifts to all taxpayers. The prime beneficiaries of CCL (churches, education and social welfare agencies) overlap substantially with the Congressional view of the beneficiaries of tax allowance proposals -- educational institutions administered by churches and colleges and universities. Thus, it is important for the NAICU membership to determine the relative importance of CCL and tax allowance proposals to independent higher education.

In part, for higher education, the extension of the deduction for charitable giving is viewed as a means of strengthening the principal of the deductability of charitable giving. Higher education today receives a majority of its charitable gifts from individuals who itemize their deductions. In the past, Congressional proposals to tinker with deductability -- change charitable giving to a tax credit -- have surfaced. This change would substantially decrease the tax incentive for large donors to give to our colleges. Thus, extending the deduction to other taxpayers increases its continued political viability. Secondly, most younger alumni utilize the zero bracket amount (standard deduction) as do over 60% of all taxpayers. Providing a deduction for charitable gifts may encourage these individuals to develop early a habit or pattern of giving to their college.

TABLE L

Tax Expenditures for Postsecondary Education
Fiscal Year 1980: Revenue Loss in Millions

Tax Expenditure	1980
Exclusion of Scholarships and Fellowships	355
Exclusion of Interest on State and Local Student Loan Bonds	45
Parental Personal Exemptions for Students	1,030
Deductibility of Contributions	
Individual	785
Corporations	305
Exclusion of GI Bill Benefits	190
Exclusion of Social Security Student Benefits	144
Employer Educational Assistance	30
Total	2,884

Source: Budget of the United State Government, Fiscal Year 1982, Special Analyses, Table G-I, page 228.

From a long term perspective, the adoption of a tax allowance program for education may have consequences vis-a-vis the total revenue loss associated with education. As Table L reveals, Special Analysis G of the FY 1982 budget indicates close to $3 billion in revenue losses associated with education occurred in FY 1980 as a result of earlier Congressional decisions. The federal government uses the term tax expenditures to define these items. Tax expenditures are defined as deviations from a normal, ideal tax system because of Congressional advocation of a special or socially beneficial purpose. Thus, in the view of the budget writers, if Congress repealed the tax provisions listed in Table J, those funds would be considered taxable income and Treasury would gain the revenue amounts listed in the column. Higher education has always disputed the appropriateness of the term tax expenditures as regards the deduction for charitable giving. Our tax system is based on income. Funds transferred for the public good are given up and should not properly be counted as income.

A program of tuition tax credits or tax allowances increases substantially the bottom line total of Table L. Whether at some point this would lead the committee to examine ways to cut back other seemingly related tax provisions is of course unknown. However, increasing Congressional concern over the dramatic overall increase in the tax expenditure budget should be mentioned.

Conclusion

In conclusion, the creation of either a tuition tax credit program or a tax savings plan will not fully make up for cutbacks in the Guaranteed Student Loan Program which are being contemplated. Prospects for enactment of such tax allowances for education are somewhat reduced in the short term by the gloomy economic picture. Economic renewal is the likely focus of at least the first and perhaps other major tax reduction bills passed by the 97th Congress. Tax savings plans for education with their potentially dual constituency -- higher education and bankers -- appear to be more in tune with the main thrust of tax legislation. However, without active advocacy by the interested parties, their political viability cannot be measured. Should the NAICU membership choose to pursue tax savings plans for education, it is likely that a couple of years of legislative effort would be involved. In the short term, such plans would provide no meaningful assistance to parents attempting to finance an independent education. In the long term, their usefulness is dependent upon the unknown variable of how willing and capable are parents to save for their children's education.

A program of tuition tax credits would provide a modest new injection of funds to assist primarily middle and upper income taxpayers with children in college. They require the expenditure of funds by the taxpayer directly allowing a partial reimbursement at a later point. Unlike need-based student assistance programs that calculate the award based on the resources the parent can bring to bear on his/her child's education,

the size of a tax benefit is dependent on the combination of taxpayer income and the existing deductions and credits against that income which have been amassed in the calendar year. Reasonable tax credit formulae can be developed which distribute a differential benefit to the parents of independent and public college students. However, at best such credits are neutral vis-a-vis the price differential between public and independent institutions. Tuition tax credit formulae sensitive to unmet need are also possible, although formulae sensitive to income level -- by distributing a larger benefit to the low income student -- are not workable within independent colleges.

Tuition tax credits enjoy a substantial base of Congressional support as well as the support of a substantial constituency -- church related elementary and secondary schools. Should the controversy over extending such tax assistance to elementary and secondary tuition prove less of a hurdle this Congress than last, this tax allowance proposal would appear to have the best chance of Congressional passage. As regards funds under the Higher Education Act, a modest program of tuition tax credits could offset the loss of the in-school interest subsidy for some, but not all, moderate income taxpayers. Should the policy choice be constructed as a program to fill the gap left by proposals to cut-back in the grant area, they are of little use because of the substantial difference in their target populations.